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TAGS: BEXP BTIO ECON EFIN EINV ETRD PGOV RW
SUBJECT: FOREIGN INVESTORS IN RWANDA: PERFORM OR GET OUT

Classified By: Ambassador Michael R. Arietti, reason 1.4 (B/D)

¶1. (SBU) SUMMARY. Accepting an offer they claim they could not refuse, the largest American investors in Rwanda sold their telecommunications company to the Government of Rwanda (GOR) on August 1. This represents the fourth time in the past year that the GOR has either nationalized a private company, forced investors out, or broken a management contract with the justification that the investors were not performing adequately. While the GOR may well serve its country by demanding results from foreign investors, it must also prove that it respects the contracts it signs or risk souring its image. END SUMMARY.

¶2. (U) August 1 marked the final chapter in a very public and stormy relationship between U.S. telecommunications firm Terracom and the GOR that spanned the local media, the New York Times, Business 2.0, President Kagame's Office, and US Congressional hearings. Terracom descended from having a direct line to President Kagame to being vilified on the front pages of the local press. The GOR officially repurchased Terracom, and the American CEO and his deputy subsequently resigned.

¶3. (C) In a meeting with econoff, departing Terracom CEO, Chris Lundh, complained that the GOR had been extremely heavy-handed throughout the entire process. He stated he was deeply frustrated that the other board members agreed to sell the company under such conditions and by such irregular valuation procedures. According to Lundh, entire sections of the original share purchase agreement (SPA) were completely ignored as Terracom was not allowed to seek arbitrage or appeal to the international chamber of commerce.

¶4. (C) Lundh stated that the Director General of the Rwanda Utility Regulatory Authority (RURA), Colonel Mudenge (Note: brother-in-law to Army Chief of Staff Major General James Kabarebe), threatened to 'send in the troops to seize the company' if Lundh did not comply with the GOR plan to remove the telecommunications business from Terracom control. The company was under constant threat of having its operating license removed, and Lundh described all GOR-Terracom meetings over the past eight months as both hostile and one-sided. To compound the pressure, during the last two weeks of the negotiations, Terracom,s bank accounts were frozen by the Ministry of Finance. This prevented it from paying vendors and employee salaries. What started as a request several months ago on behalf of the GOR to

renegotiate the original SPA that privatized the national telecommunications company (RwandaTel) turned into a demand that Terracom sell the company back to the GOR. Lundh complained that in his 20 years of business experience in Africa, spanning the Democratic Republic of Congo to West Africa, the GOR's conduct was the most blatantly unprofessional and heavy-handed that he had ever experienced.

¶5. (C) The final valuation of the company, which fluctuated in two weeks time from USD 2.3 million to negative USD 8.7 million, and finally ended at USD 11.9 million, was arrived upon by a private consultant from the Ministry of Finance, Peter Rutaremara (FYI: Terracom initially bought RwandaTel from the GOR for USD 20 million in 2003, although it only paid USD 5 million in cash at the time. End FYI.). The net-asset valuation model Rutaremara used was highly irregular for a telecommunications company, ignoring revenue streams, valuations per subscribers, and earnings potentials. Nonetheless, the GOR refused Terracom's request to contract a reputable international firm to conduct the audit and propose a value for the company, which Lundh and other Terracom directors believed to be closer to USD 40 million. Moreover, the final valuation of the company did not include figures from 2007, which was particularly unfavorable to Terracom which posted net profits as of June 2007.

¶6. (C) Lundh explained that Board members John Dick and Greg Wyler, the initial CEO of Terracom, were eager to reach an amicable solution to the months-long dispute. Dick, who holds a Rwandan diplomatic passport and is the Honorary Counsel in the Isle of Jersey for Rwanda, has several remaining interests in Rwanda and was more interested in preserving his perceived special status with the GOR than in recovering his financial investment, according to Lundh. In conversations with Ambassador, Dick has also been much more positive in describing his interactions with Rwandan officials.

¶7. (SBU) Terracom management Dick, Wyler, Lundh, and Deputy Peter Bartik -- all have admitted, in numerous conversations, mistakes on Terracom,s behalf and acknowledged that Terracom had not met several goals it agreed to as part of the 2003 SPA. However, they all also have agreed that their treatment at the hands of the GOR reflects more than a reaction to any particular mistake. Wyler, who began receiving public criticism in mid-2006 of his management of Terracom, had been repeatedly targeted in the local press and was pressured to step down from his CEO position by the GOR. In fact, even a year after his replacement and Lundh,s leadership began, the GOR continued to cite Wyler,s mistakes including his attempt, in early 2006, to sell Terracom shares to business magnate Miko Rwayitare of CellTell as one of the main reasons for the nationalization of the company. The Ministers of Finance and Infrastructure on separate occasions complained to Ambassador Arietti about Terracom,s unfulfilled promises of bringing in large amounts of outside investment, providing internet access to schools around the country, and providing cheap internet and cell phone services.

¶8. (C) Terracom management also blamed the GOR for its unfulfilled promises. Lundh claimed that current receivables (uncollected bills) from the GOR total USD 6 million, and that RURA never responded to Terracom,s requests to require the main telecommunications company in Rwanda (MTN) to halt its monopolistic practices of restricting access to its networks which prevented Terracom's true entry into the market. On one hand, Lundh accused the Rwandan Patriotic Front (RPF) of squeezing Terracom out of the market in an attempt to prevent competition with MTN, in which the RPF indirectly has 40 percent ownership. On the other hand, he accused the GOR of looking to make money by buying Terracom at a discount and then re-privatizing the now-profitable company at a premium. (COMMENT: GOR officials have rejected any suggestion that RPF investment in MTN has been an issue, noting that the GOR continues to want a strong alternative telecommunications company in the country as competition to MTN and plans to re-privatize the company as quickly as possible).

¶9. (SBU) Lundh underscored that Terracom,s departure from Rwanda was unfortunate not only because its presence in the country helped mitigate the hesitations other potential American businesses have about investing in Rwanda, but also because it brought a sense of professionalism and American management expertise to Rwanda. The company refused to pay bribes, bumped employee salaries by 18-40 percent since taking over RwandaTel, and helped generate positive press on the investment potential of Rwanda.

¶10. (SBU) Final terms required the GOR to pay 30 percent of the USD 11.9 million immediately, which it did, and to provide a letter of credit with Citibank in the U.S. for the remaining 70 percent. Other obligations will be subtracted from this amount, but Lundh remains confident they will eventually receive the full USD 11.9 million. The Chief Technical Officer, Patrick Kariningufu, is the acting CEO with some representatives from the GOR also running the company.

¶11. (C) In an August 10 meeting with Ambassador, Minister of State for Infrastructure Albert Butare stated that the GOR had already released a tender for the company. Butare claimed that more than six companies have expressed interest in bidding on the company. Lundh claimed that the Libyan-Africa Group (LAG) met with Minister Butare in early May 2007 to explore investing in Terracom, upon the invitation of Lundh. Since then, Libyan Charge, Dr. Muhamad Al-Ahmer, commented several times to econoff that LAG plans to run the company, implying that a deal had already been struck with the GOR. Lundh also reported that Emerging Markets Telecommunications, an American-Canadian outfit, is looking at acquiring telecommunications companies in Burundi and Rwanda and has contacted Lundh to advise them on the process. MaraCom, an Israeli-British firm and R-Com Consortium from South Africa, were the other bidders on RwandaTel in 2003, and are likely to bid on the privatization again.

¶12. (SBU) COMMENT. While it is positive to see the GOR become more vigilant and discerning regarding foreign investors, recent instances of re-nationalizing previously privatized companies, canceling contracts, and forcing out foreign investors that are not performing to the GOR's satisfaction -- such as German Lahemeyer at Electrogaz, South African Southern Sun with the now-Serena managed hotels, Dane Associates with the methane extraction and conversion on Lake Kivu, and now Terracom -- are attracting attention. The GOR serves its country well by demanding results from its investors and holding them accountable for promises made. For example, President Kagame has been quoted in the local paper welcoming foreign investment, but vowing to "kick them out" if they do not perform. Nonetheless, the GOR must also prove that it respects the contracts it signs with these investors. None of the ejected companies have been able to seek international arbitrage, and each of them has left with an extremely negative impression of the Rwandan business climate. While the GOR appears to have merit in each individual case, Rwanda needs to be careful that it does not create a negative image for future investors. END COMMENT.

ARIETTI